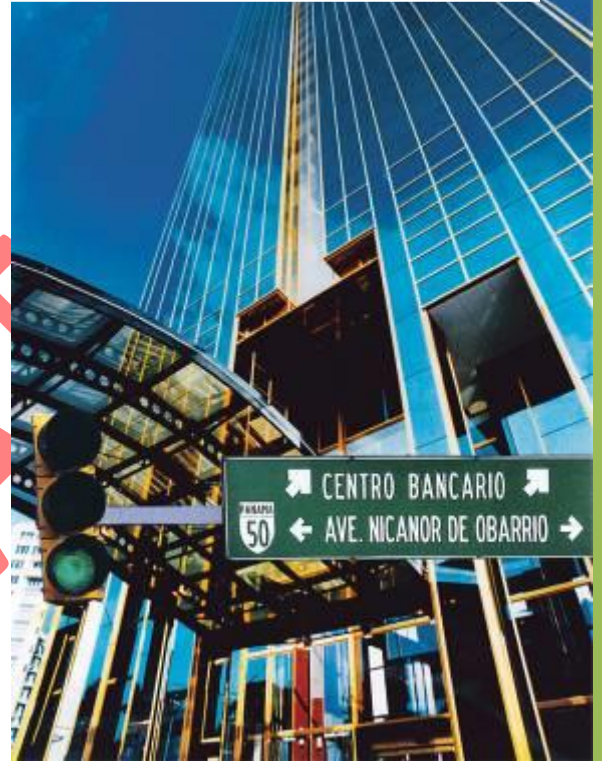




Superintendencia
de Bancos de Panamá

Financial Studies Division

Report on the Situation of the Commercial Sector



2014

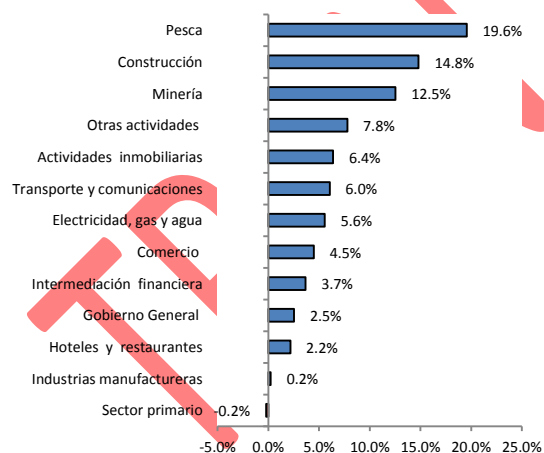
I. General Situation of Economic Activity

1. Gross Domestic Product

During 2014, the Panamanian economy grew 6.2%, reaching US\$35.65 billion in real terms. It is worth noting that even though the data for the activity indicates a moderating perspective for growth in line with its potential, data provided to date and employment indicators suggest that growth will remain above 6% during 2015.

During 2014, fishing (19.6%), construction (14.9%) and mining (12.5%) have been the sectors that have grown the most. It is worth noting that construction and mining performance contribute to the expansion of installed economic capacity and are important components of investment. This will favor an increase in potential GDP and prevent inflationary pressures coming from the demand side.

Chart 1: GDP Variation
Year: 2014
(in percentages)



Source: SBP with NISC data

This increase is primarily supported by the performance of the economic activities related to the foreign sector. Among these are ports, air transportation, financial activities, tourism, Panama Canal services, and banana, melon and watermelon

exports. At the same time, there was a decrease in pineapple exports and in Colon Free Zone trade.

Domestically, the following activities increased: cattle and poultry breeding; mining and quarrying; construction; utilities (electricity and water); wholesaling and retailing; hotels and restaurants; real estate; regular passenger, cargo and coastal transportation; telecommunications; education; private healthcare; other community, social and personal services; as well as domestic services.

It was noted that loans to the commercial sector in particular have increased in line with that of GDP. It is noteworthy that these loans have maintained growth levels supporting adequate financial performance. Similarly, given the favorable macroeconomic scenario for the country, it is expected that portfolio quality indicators will remain stable for 2015, allowing for good momentum in the loan portfolio over the entire year.

However, it is expected that loans related to foreign activities will see a decrease in their placement rate.

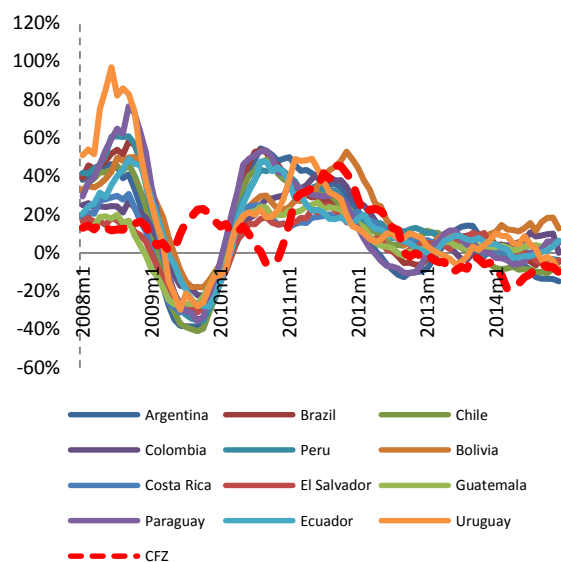
2. Commercial Sector

One of the sectors that have contributed to the slowdown in Panama's Gross Domestic Product (GDP) has been, to a significant extent, the commercial sector, especially the areas related to the external environment. This segment is one of the most susceptible to external shocks, as almost half of the change in commerce is explained by this component. Consequently, it is not surprising that it was the GDP sector that grew the least.

Wholesaling in the Colon Free Zone dropped 14% as a result of a reduction in re-export (-14.1%) to the main free zone clients, which have moderated their commercial activities (some even contracting) as a result of a drop in the aggregate demand of their main buyers from developed countries, the strengthening of the dollar, the fall in the price of various commodities

that are the source of their foreign exchange. Similarly, this result was influenced by the decrease in trade with Colombia and Venezuela due to trade restrictions and constrains caused by exchange rate policies, respectively.

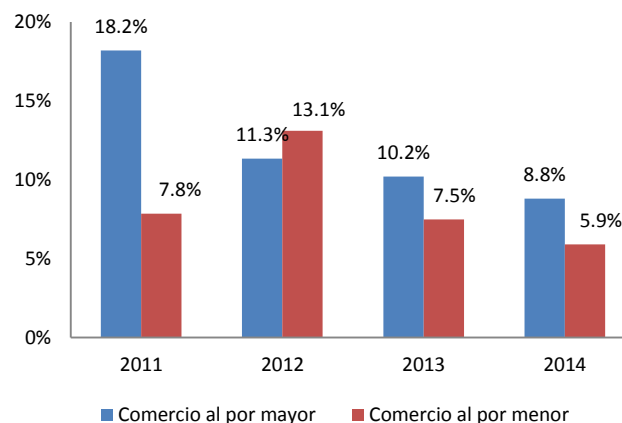
Chart 2: Total Imports from some Latin American countries and re-exports from the CLZ
Years: 2008 - 2014
(Annual variation, %)



Source: WTO

Domestic commercial activity indicators suggest the sector will continue the good performance it has shown to date, although slowing in consonance with the trend that has been observed since mid-2012. In 2014, commercial added value totaled 4.5% and, specifically, domestic wholesaling showed an 8.8% increase, influenced by increases in some construction materials, domestic appliances, and others. Meanwhile, retailing showed a 5.9% increase in its added value due to increased sales of fabrics and food.

Chart 3: Variation of Wholesaling and Retailing
Years 2011 - 2014
(in percentages)



Source: NISC

This has occurred in a context in which the generation of employment in the commercial sector accelerated according to the last data available¹ (3.7% annual for wholesaling and 2.5% annual for retailing), which has been consistent with the low overall unemployment rate, which is at historically low levels (3.5% open unemployment and 4.8% total unemployment as of August 2014).

3. Tourism, Hotels and Restaurants

This tourism-related sector had a positive variation in its gross added value of 2.2% as a result of a 2.9% increase in restaurant performance and a 0.5% increase in hotels due to increases in the number of tourists and their expenditures. For the fourth quarter of 2014, this category registered a 2.4% growth.

Despite the increases in hotel rooms, hotel occupancy has been dropping. Hotel rooms have maintained relatively stable at around 50%, reaching 51.45 in December 2014.

¹ The last data available is through September 2014.

II. Performance of Banking to the Commercial Sector

1. Performance of Credit to the Domestic Private Sector

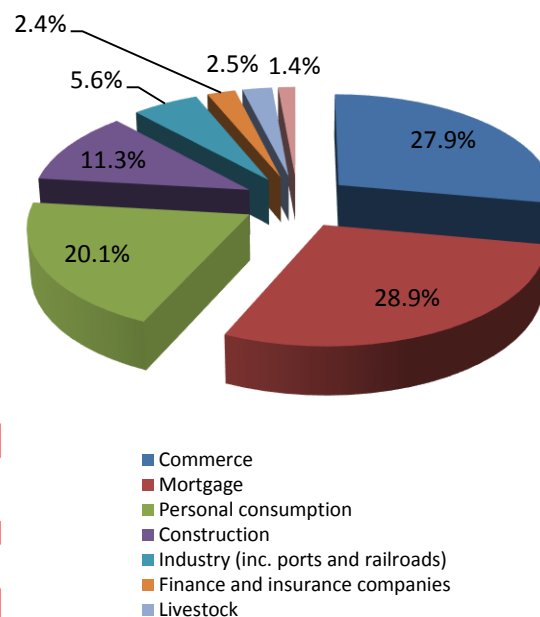
The credit portfolio of the National Banking System (BNS) has maintained constant growth in recent years.

This growth has been the result of several factors that have contributed to the performance of the activity. The free flow of capital and high level of deposits in the banks of the market have allowed banks to obtain important funding sources.

At the same time, they offer the domestic market the funding requested by various sectors of the country. As of the end of December 2014, the NBS had a credit portfolio totaling US\$55.93 billion, US\$40.36 billion of which belonged to the domestic credit portfolio.

The domestic credit portfolio showed an 8.9% increase over December 2013. Its growth was influenced principally by increases in the commercial (6.3%) and mortgage (13.3%) sectors.

Chart 4: National Banking System
Participation of Sectors in Domestic Private Credit:
December 2014
(in percentages)



Source: General license banks

The commercial and mortgage sectors are, in fact, precisely the two sectors with the largest participation in domestic private credit as of December 2014, with 27.9% and 28.9%, respectively, followed by personal consumption at 20.1%, construction with 11.3%, industry at 5.3% and other sectors with 6.3%.

Sector participation in domestic private credit did not show significant changes over the same period in 2013, with the commercial, mortgage and personal consumption sectors totaling 75% of NBS domestic private credit.

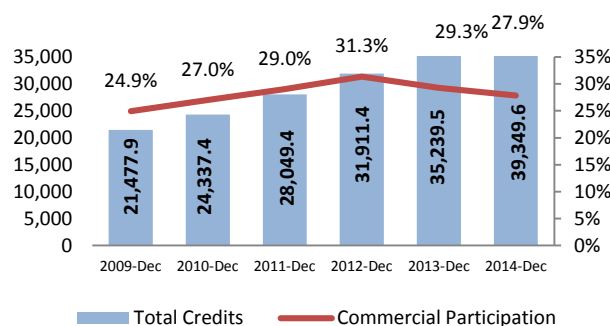
2. Performance of Credit to the Commercial Sector

Domestic credit represents one of the factors that have mobilized the domestic economy by being able to fund the various sectors. Without undermining the

importance of the rest of the sectors, commercial activity has become the major funding applicant, a fact reflected in the high level of participation it has in total private domestic credit.

As of December 2014, the commercial sector held 27.8% of total domestic credit to the private sector. If this trend continues, commerce could cover a third of the NBS domestic credit portfolio in the coming months.

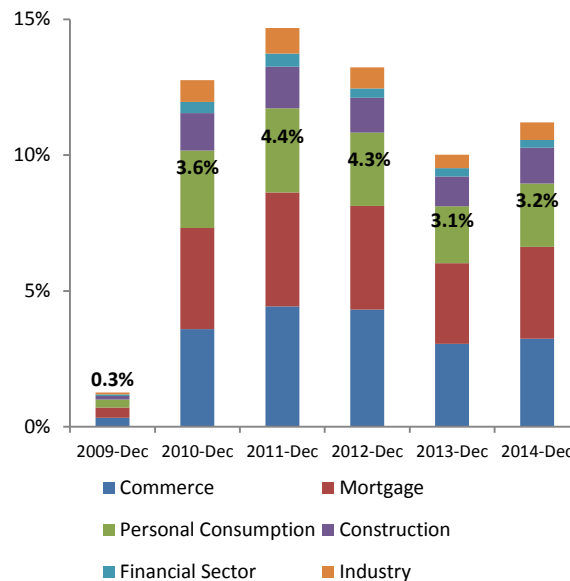
Chart 5: National Banking System
Total Private Domestic credit and Participation of the Commercial Sector: December 2009 – 2014
(in millions of US\$ and percentages)



Source: General license banks

The balance of domestic credit to the private sector grew 11.7% through December 2014, to which the commercial sector contributed 3.2 percentage points. In recent periods, commerce has been the sector that has contributed the most to the growth of the domestic credit portfolio, with the exception of 2010, when there were some setbacks due to the 2009 downturn related to the provisions necessary for withstanding the 2009 financial crisis in the United States.

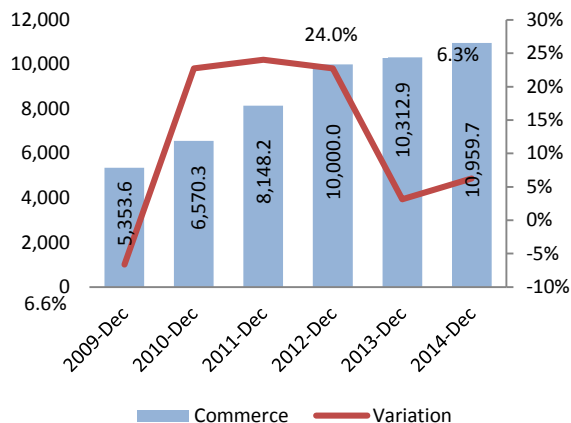
Chart 6: National Banking System
Commercial Sector Contribution to the Growth of the Domestic Credit Portfolio: December 2009 – 2014
(in percentages)



Source: General license banks

As of the end December 2014, credit to the commercial sector was US\$10.96 billion, a 6.3% growth. Since December 2010, the balance of the commercial sector has shown continuous growth at a slower rate, with the highest point of growth being reached in December 2012, which recorded a 24% increase compared to December 2011.

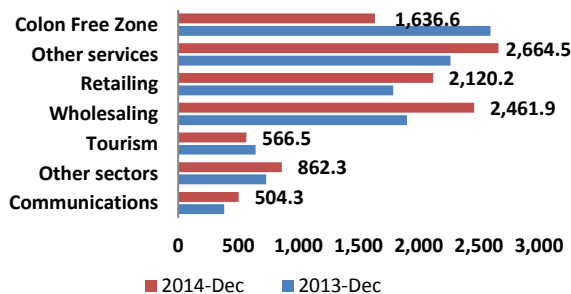
Chart 7: National Banking System
Total Credit to the Commercial Sector and Its Annual
Variation: December 2009 - 2014
(in millions of US\$ and percentages)



Source: General license banks

The total commercial portfolio also contains the Colon Free Zone, which registered US\$1.64 billion as of December 2014, other services with US\$2.67 billion, retailing at US\$2.13 billion and wholesaling with US\$2.47 billion, these being the ones with the greatest participation. The tourism sector, with a total of US\$566.5 million, communications at US\$504.3 million and other sectors with US\$862.3 million are also noteworthy players in the commercial sector.

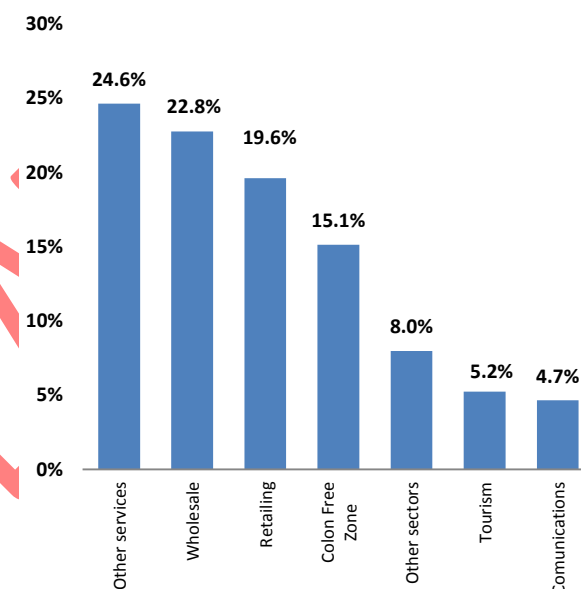
Chart 8: National Banking System
Total Credit to the Commercial Subsectors:
December 2013 - 2014
(in millions of US)



Source: General license banks

All commercial subsectors showed increases in their credit portfolio as of December 2014 with respect to the same month in 2013. The subsector that grew the most was other services with 24.6%, followed by wholesaling (22.8%), retailing (19.6%), the Colon Free Zone (15.1%), other sectors (8%), tourism (5.2%) and communications (4.7%).

Chart 9: National Banking System
Growth of Credit to Commercial Subsectors: December
2014
(in percentages)



Source: General license banks

The Other sectors category is comprised of the sectors with a lower participation, including industry, education, transportation, restaurants, rentals and maintenance. We should highlight the growth of rentals and maintenance (32.1%), public transportation (-4.5%) and commercial industries (10%), in comparison with 2013.

3. Commercial Credit Ranking

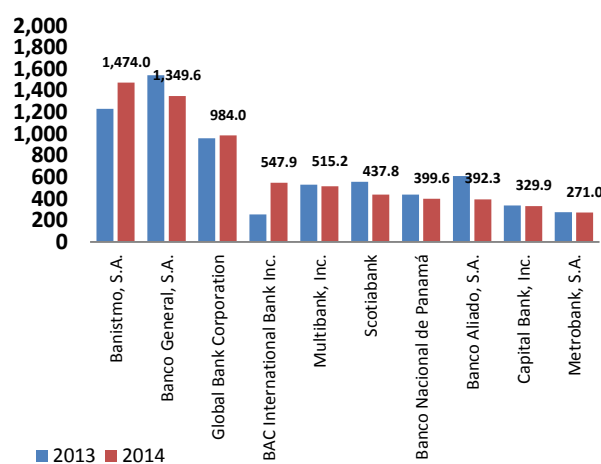
Seventy-three percent (73%) of the financing for the commercial sector is distributed among the ten banks granting the most commercial loans. As of December 2014, the bank with the highest balance of

commercial credit was Banistmo with US\$1.48 billion, followed by Global Bank at US\$984.0 million, Bac International Bank with US\$547.9 million and Multibank at US\$515.2 million. These five are the main lenders to the sector.

The banks did not have the same position as 2013.

Chart 10: National Banking System

Banks Ranked by Total Domestic Commercial Credit:
December 2013 – December 2014
(in millions of US\$)

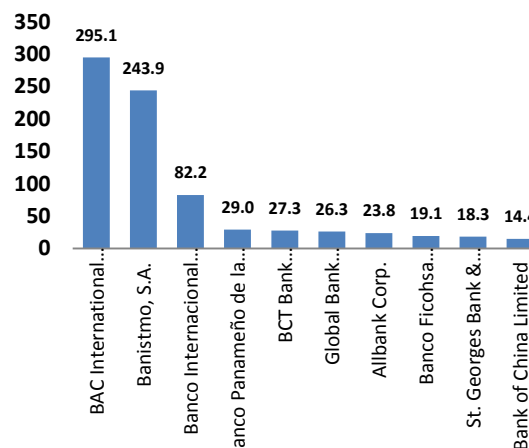


Source: General license banks

With regard to total change from December 2014 over December 2013, BAC ranks first, totaling US\$295.1 million, followed by Banistmo at US\$243.9 million, Banco Internacional de Costa Rica with US\$82.2 million, Banvivienda at US\$29 million and BCT Bank International, S.A. with US\$27.3 million. These are the top five in growth.

Chart 11: National Banking System

Growth of Total Domestic Credit to Commerce by Bank:
December 2014
(in millions of US\$)



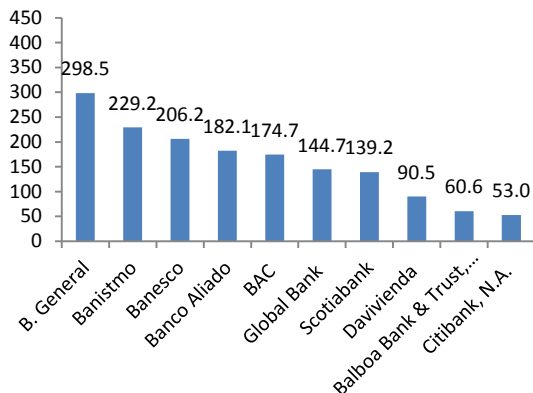
Source: General license banks

With regard to bank performance, it is worth noting that not all Banks had significant changes as of December 2014. This could reflect a higher level of operational prudence.

The balance of loans destined for the Colon Free Zone is concentrated among the top ten banks in the country (88.7%). The bank with the highest balance in loans to this subsector is Banco General at US\$298.5 million, followed by Banistmo with US\$229.2 million, Banesco at US\$206.2 million, Banco Aliado with US\$182.1 million and Bac International Bank at US\$174.7 million. These are the top five.

Chart 12: National Banking System

Main Balances of Loans to the Colon Free Zone by Bank:
December 2014
(in millions of US\$)

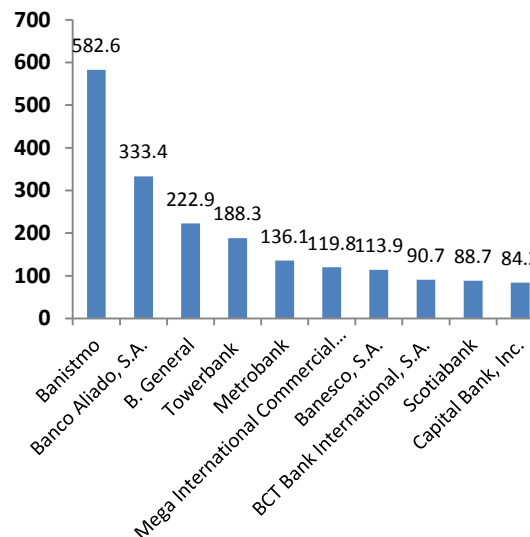


Source: General license banks

For its part, 84.6% of the balance of loans to wholesaling is concentrated in the top ten banks. The banks with the highest balances of loans to wholesaling are Banistmo with US\$582.6 million, followed by Banco Aliado at US\$333.4 million, Banco General with US\$222.9 million, Towerbank at US\$188.3 million and Metrobank with US\$136.1 million.

Chart 13: National Banking System

Main Balances of Loans to Wholesaling by Bank:
December 2014
(in millions of US\$)

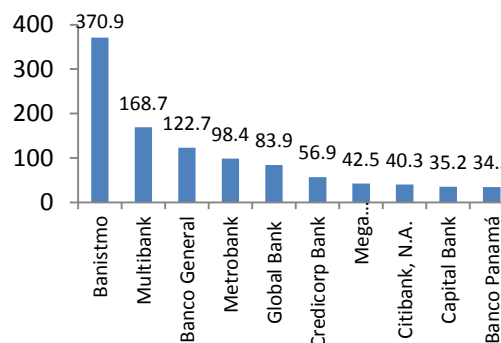


Source: General license banks

As for retailing, the top ten Banks concentrated 87.2% of the total balance of loans destined to this activity. The banks with the highest balance of loans to retailing are Banistmo with US\$370.9 million, followed by Multibank at US\$168.7 million, Banco General with US\$122.7 million, Metrobank at US\$98.4 million and Global Bank with US\$83.9 million.

Chart 14: National Banking System

Main Balances of Loans to Retailing by Bank:
December 2014
(in millions of US\$)

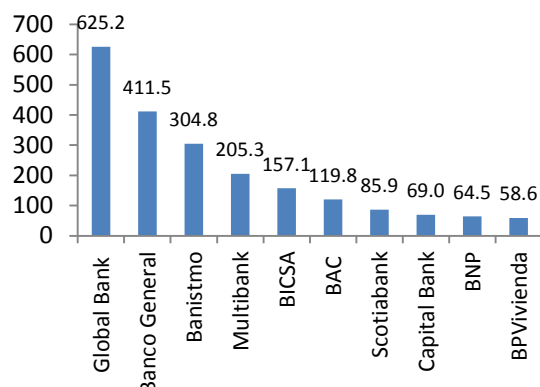


Source: General license banks

TRANSPARENCIA

As for other services, i.e. non-categorized commercial services, the top ten banks concentrate 78.9% of the total balance of loans destined to this activity. The bank with the highest balance to other services is Global Bank with US\$625.2 million, followed by Banco General at US\$411.5 million, Banistmo with US\$304.8 million, Multibank at US\$205.3 million and Banco Internacional de Costa Rica with US\$157.1 million. These are the top five.

Chart 15: National Banking System
Main Balances to Other Services by Bank:
December 2014
(in millions of US\$)



Source: General license banks

4. Portfolio Quality

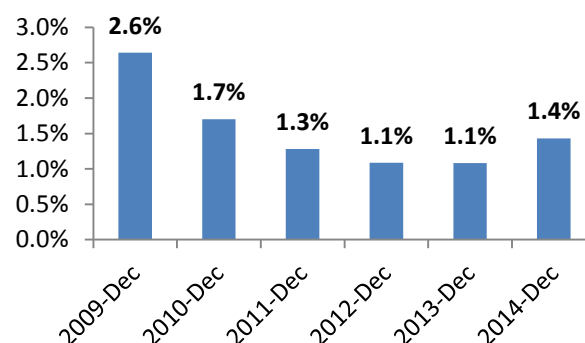
The commercial sector's portfolio quality showed a downward trend for the assessed period. The risk-weighted portfolio (past due and delinquent commercial loans) shows an improvement as of December 2014 over previous periods.

The percentage of commercial loans considered high-risk (past due and delinquent) shows good results, with steady reductions from December 2010 (1.7%) to December 2014 (1.4%).

Using an inverse relationship, we can determine that the low-risk portfolio, that is, the one that is current, has risen from 96.6% in December 2010 to 97.2% in

December 2014, indicating better efficiency in commercial loan risk management.

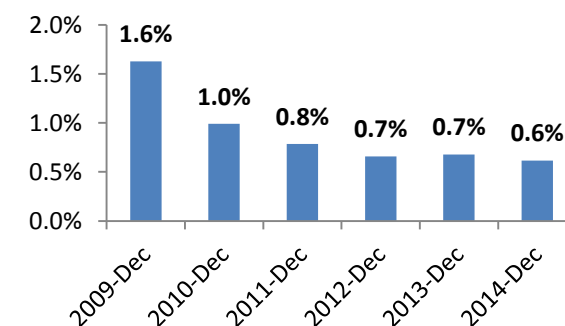
Chart 16: National Banking System
Percentage of Past Due and Delinquent Commercial Loans:
December 2009 – December 2014
(in percentages)



Source: General license banks

The indicator for the percentage of commercial loans that are delinquent was 0.6% in December 2014, below the 1.6% obtained in December 2009.

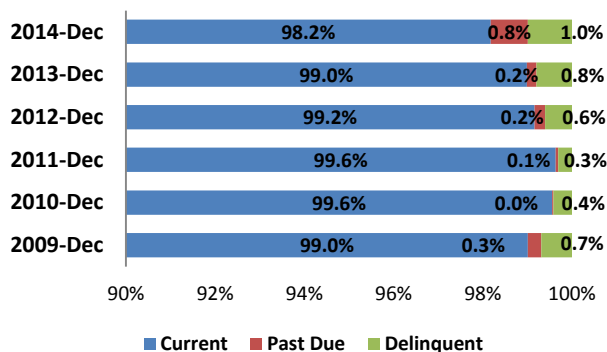
Chart 17: National Banking System
Percentage of Delinquent Commercial Loans:
December 2009 – December 2014
(in percentages)



Source: General license banks

Analyzing the main subsectors of the credit portfolio, it was noticed that portfolios have improved considerably over previous years. As of the end of December 2014, 98.2% of the loans in the Colon Free Zone portfolio were current, 0.8% past due and 1% delinquent. The indicators have remained at the low-risk levels of previous years.

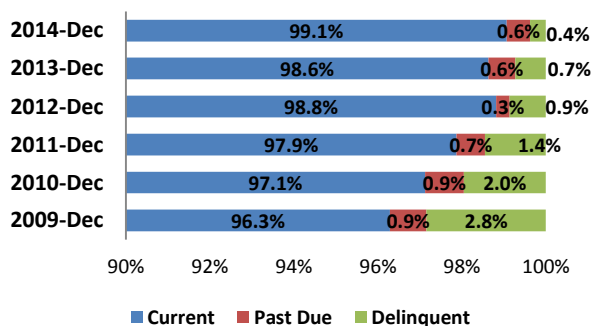
Chart 18: National Banking System
Quality of the Colon Free Zone Loan Portfolio:
December 2009 – December 2014
(in percentages)



Source: General license banks

For its part, commercial credit to wholesaling finished December 2014 with 99.1% of its loans current, higher than the 96.3% registered in December 2009. This subsector has shown a clear improvement in its portfolio quality.

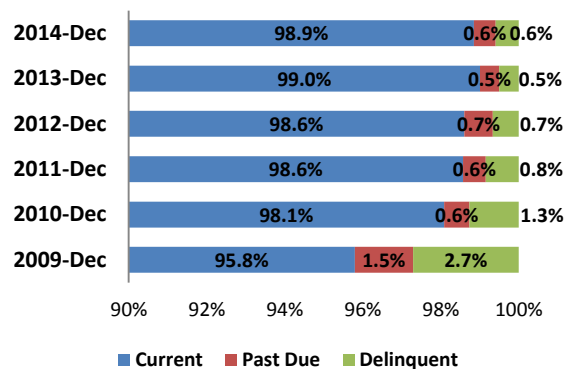
Chart 19: National Banking System
Quality of the Wholesaling Loan Portfolio:
December 2009 – December 2014
(in percentages)



Source: General license banks

As of December 2014, 98.9% of the loans in the retailing portfolio were current, 0.6% were past due and 0.6% delinquent, the best indicators for this subsector in recent periods.

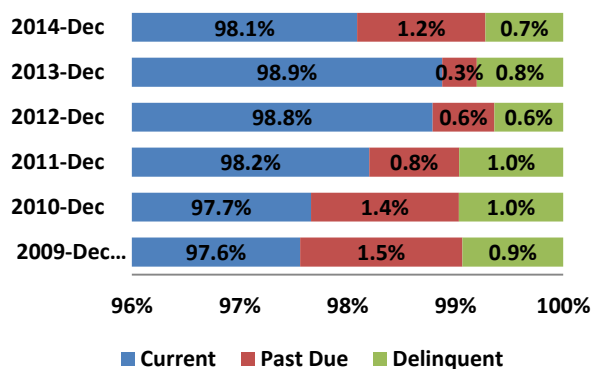
Chart 21: National Banking System
Quality of the Retailing Loan Portfolio:
December 2009 – December 2014
(in percentages)



Source: General license banks

With regard to other commercial services, as of December 2014, 98.1% of its loans were current, 1.2% were past due and 0.7% were delinquent. The behavior of this portfolio is similar to previous years. However, it is noteworthy that the percentages have improved for this period.

Chart 22: National Banking System
Quality of the Other Commercial Services Loan Portfolio:
December 2009 – December 2014
(in percentages)



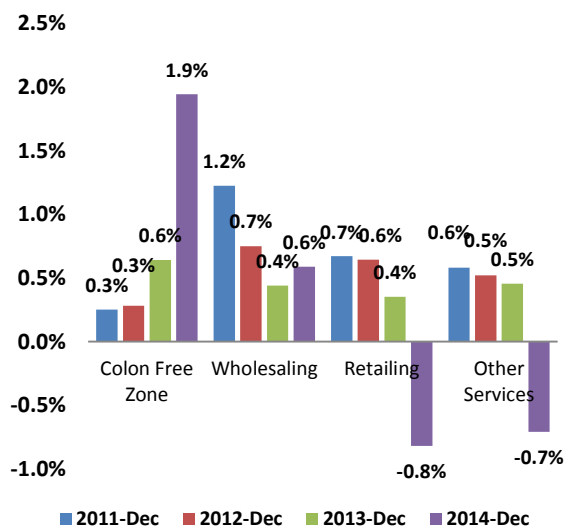
Source: General license banks

On the level of provisions in the commercial portfolio at the end of December 2014, loans to the Colon Free

Zone had a reserve of 0.6% of total loans destined for this subsector. The loans for wholesaling had reserves of 0.4%, retailing 0.4% and other services 0.5%.

Chart 23: National Banking System

Percentage of Reserves in the Domestic Commercial Portfolio: December 2011 - 2014
(in percentages)



Source: General license banks

TRANSLATION